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C O N F I D E N T I A L SECTION 01 OF 02 BUCHAREST 000101

SIPDIS

STATE FOR EUR/CE ASCHEIBE AND EUR/OHI SE KENNEDY

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TAGS: [EFIN](#) [ETRD](#) [ECON](#) [CASC](#) [PGOV](#) [RO](#)

SUBJECT: ROMANIA: PROFESSIONAL MANAGERS (FINALLY) IN CHARGE
OF THE PROPERTY FUND

REF: 09 BUCHAREST 427 AND PREVIOUS

Classified By: DCM JERI GUTHRIE-CORN FOR REASONS 1.4 (B) AND (D).

11. (SBU) Summary. After a series of politically-motivated delays, the Government of Romania (GOR) signed a contract with U.S.-based Franklin Templeton Investments to manage the Property Fund ("the Fund") on February 25th. Despite early hopeful signs (reftel) that this management contract would be signed well before the end of the summer of 2009, political considerations and private interests conspired to delay the appointment of an outside fund manager by more than six months. The appointment of Franklin Templeton is a victory for transparency and good governance, as it follows a free and fair selection process. Franklin Templeton's involvement with this 2.7 billion euro fund offers hope that Romania's drawn-out property restitution saga is now entering its final chapters. End Summary.

12. (C) When the Fund was initially established, one of the underlying goals was to transition management from the GOR to a professional fund manager as soon as possible in order to maximize the value of the compensation granted to former property owners. Unfortunately, inclusion of profitable, "strategic" companies in the energy, transport, and telecommunications sector proved to be almost too valuable to relinquish, resulting in significant GOR foot-dragging. The members of the government-appointed supervisory board found themselves charged with eliminating their own very lucrative positions, while individual Ministers saw an end to the patronage network offered by their sole control over state companies.

13. (C) There was a palatable shock throughout the system when Franklin Templeton emerged as the winner of what turned out to be a transparent and unassailable tendering process. Lacking any reasonably coherent grounds to overturn the selection process, politically connected interests turned to delaying tactics, giving the GOR time to reorganize several companies within the Property Fund's remit, including the "crown jewel" energy companies and airport authority. Various pretexts, including the abrupt resignation of the chairman of the Selection Commission days before he was due to sign the management contract, were concocted, giving the GOR breathing room to do the necessary house-cleaning before opening the books to Franklin Templeton. The personal engagement, at the Ambassador's request, of both President Basescu and Prime Minister Boc finally broke the logjam. Franklin Templeton's patience and willingness to finesse the terms of the management contract to win over doubters also helped to overcome lingering resistance. Franklin Templeton will now see in the coming weeks whether or not this delay resulted in any long-term damage to the Fund's underlying assets.

14. (SBU) Franklin Templeton plans to bring in an experienced in-house team to manage the fund initially, while slowly

building up a local operation. The team will be under the overall direction of David Smart, Global Head of Sovereign Funds and Supranationals, with Mark Mobius, Executive Chairman of Asset Management, providing additional advice and assistance. Admitting that they are "inundated" with resumes, David Smart said that Franklin Templeton plans to take its time to identify the very best locals to employ, but that he does expect staffing to become increasingly Romanian over the medium term. The short-term goal is to evaluate the assets under management and prepare the Fund for a listing on the Bucharest Stock Exchange. Smart added that there is also interest in a dual-listing, probably in London, which would bring strong corporate governance rules into play, improving Franklin Templeton's ability to manage both the Fund and the companies it owns.

¶5. (C) Comment. Franklin Templeton's involvement with the Fund will provide real and direct benefits to current shareholders. At the same time, the Fund will be the single largest listing on the Bucharest Stock Exchange. The fact that it will be under the management control of a well-regarded U.S. company has the potential to pay wider dividends, as best-practices are transmitted through the Fund to the broader equity market. This will boost transparency and improve corporate governance. The lingering worry is that Franklin Templeton gave away too much in altering the terms of the management contract and that the new managers will be stymied by vested interests. The Ministry of Finance will remain the single largest shareholder until the restitution process concludes, while control over many state companies will continue to be split between the Fund and various ministries. Post has sensitized Franklin Templeton

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to these issues and has encouraged the company to pay careful attention to managing the relationship with the GOR. Still, the process of ceding control is slowly and inexorably advancing, improving the long-term prospects for both Romanian capital markets and the Fund itself. End Comment.
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